

ER 10-3409/a

7 May 1958

Handwritten signature
Mr. Herbert W. Robinson, President
Corporation for Economic and Industrial
Research
1200 Jefferson Davis Highway
Arlington 2, Virginia

Dear Mr. Robinson:

Mr. Allen W. Dulles, Director of Central Intelligence, has asked me to acknowledge receipt of your letter of May 5, 1958 and to thank you for taking time to let him know your views on the subject of economics and industrial research.

Sincerely,

SIGNED

Stanley J. Grogan
Assistant to the Director

O/DCI/SJGrogan/(7 May 1958)/ppp.

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Executive Registry

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Mr. Allen W. Dulles
Director
Central Intelligence Agency
Washington 25, D.C.

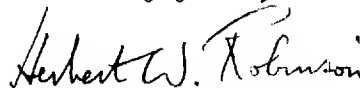
Dear Mr. Dulles:

I was delighted to read the text of your talk before the 46th Annual Meeting of the Chamber of Commerce of the United States on April 28th.

It seems to me that the country must be alerted to the long-term peril facing us, and to our basic national problem of how a free system such as ours will overcome the challenge of an unscrupulous rival who has complete control over every aspect of economic life and is willing to pursue his goal of world domination fanatically at any expense to his own people.

It was in connection with this problem that I made the proposal to use our tax structure to encourage investment which is outlined in the attached speech before the Mount Vernon-Lee Chamber of Commerce on the occasion of their opening the local "Invest in America Week." It seems to me that an important facet of our problem is how to step up savings and investment to accelerate our growth. Certainly, such an acceleration is well within our means, it is simply a matter of somehow persuading the American public to reduce or delay the rise of the level of consumption to enable us to maintain our economic superiority over the decades to come.

Sincerely yours,



Herbert W. Robinson
President

May 5, 1958

Enclosure-1

FOR RELEASE
April 21, 1958
7:00 p.m.

SAVING, INVESTMENT AND AUTOMATION
NOW OF VITAL IMPORTANCE TO AMERICA

In a speech before the Virginia Mount Vernon-Lee Chamber of Commerce on April 21, starting off the local "Invest in America Week," Dr. Herbert W. Robinson, President of the Corporation for Economic and Industrial Research of Washington, D.C., and President of Automation Shares, Inc., a new mutual fund, said the stepping up of saving, investment and automation are now vital to this country's future welfare and security. "Either we must invest in America or it is only a matter of time - perhaps a very short time - before we will be submerged by world communism" he said. Among the points he made were:

"Projections of economic growth show we can expect an expansion of our national income to two and a quarter times its present level by 1980 - which means a rise in per head income of over 50%. This assumes we have only a low level of unemployment, that we continue our recent saving and investment habits, and that we maintain a continued rise in productivity through mechanization and automation. CEIR's study of the growth of the Nation's Capital and its environs showed that under such circumstances this area could grow from about two million to almost $3\frac{1}{2}$ million population in this period.

"Even if this pace is achieved we will be steadily falling behind the Soviet Bloc relatively. While over the last decade we have increased our industrial production at a compound rate of about $2\frac{1}{2}\%$ per annum, they are expanding theirs by about $9\frac{1}{2}\%$ compounded. Moreover, we devote an enormous percentage of our output to automobiles, electrical appliances, and other consumer

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goods while they reverse the picture by keeping down their people and concentrating on machinery and equipment for even further expansion.

"Worse still, we are not achieving our pace. We have seen the growth of a recession since the beginning of 1957. It is not much consolation that the rate of decline is slackening; the movement is still downward. Our industrial production today is back to the 1954 level. In these same four years the Soviet Union has increased its industrial production by $42\frac{1}{2}\%$. Mr. Krushchev said only last week that in the last year alone it increased 11%.

"Some of us are guilty of wishful thinking. Even those in high places escape from these unpleasant facts by predicting all kinds of problems the Soviets might encounter in keeping up their pace. So far, in 40 years, such problems have not supervened; why should they do so now? We are also told we should not aim at a faster rate of growth in America because it might "damage the American Economy." Yet no sound reasoning is given to back up such flat statements. They totally ignore the salient fact. The Soviets have announced their intention of winning the world. They have shown their ability to transform their economic growth in a terribly impressive way into military strength and improved military science. They are now in the process of turning it also to economic warfare in the battle for men's minds the world over. The United States economy is likewise for us the basis of our military and economic defense. Our economic growth is, therefore, not only basic to achievement of improved standards of living, but is vital if we are to build over the years to come the means of protecting the free world from the surging tide of world communism. It must be preserved and nourished or we will in time be submerged. It is not only an economic problem, it is now a defense problem.

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"To maintain and increase our growth of per capita income will require great investments. In the decade ending 1965, while our population will grow by 25 millions, or 15%, our working labor force will grow by only 9 million, or 13 $\frac{1}{2}$ %. There will, according to Mr. A. C. Monteith, Vice President of the Westinghouse Corporation, be a labor shortage of 4 million in the next five years. Obviously, we can only offset this by increased productivity. And this means exploiting all the modern miracles of mechanization and automation. The technical means are now known, thanks to pathbreaking developments in technology which have occurred in the last 15 years, but the installation of such plant and equipment requires many billions of dollars in investment, and this can, of course, only be financed by equally large savings by the American people. If we are willing to save and invest our money on such a scale, automation presents us with the opportunity to match and even exceed the rate of growth of the Soviet economy.

"If, however, we examine the rate of saving in this country, we find it very low relatively to our level of income. We stand head and shoulders above the rest of the world in per capita income, but paradoxically the percentage we save is less. We invest about 11 $\frac{1}{4}$ % of our national income; France invests about 13 $\frac{1}{2}$ %, West Germany 20%; and Japan 25 $\frac{1}{2}$ %. The Soviet Bloc invests even more. What we need, therefore, is a return to the habits of our grandparents, when thrift was a virtue and savings were used to invest in and build up America. The scope for investment is still enormous because the American continent is still only partially developed.

"The present recession perhaps offers an unusual opportunity for the leadership of our country to effect some of the necessary changes in our

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habits. The question of a tax cut to combat the recession and restore dynamic growth is a controversial subject today. All I can say here is that in my view the recession is so serious that a move in this direction is long overdue. If it is well designed and has the desired effect on consumer spending and production, the total revenue should not fall as much as taxes are reduced; total revenue might in fact even increase. And if production increases pari-passu there should be little added inflationary effect. However, if a tax cut is decided upon it seems to me that the opportunity might well be taken to encourage permanently the vital process of saving and investment. It is my view that, with taxes at their present high level, savings are being actively discouraged. At 5% interest, and a 20% tax bracket, I have to save \$3,000 to obtain an additional \$10 per month, and then I am risking my capital. Little wonder the average person does not feel attracted to saving. It would not require much ingenuity to include with a well balanced set of tax cuts, designed to increase spending by the middle and lower income groups, a real incentive to save by freeing the first \$1,000 per annum of investment income from income tax, up to a limit of say \$300 per annum in tax relief. Doubtless there would be many details to be worked out, but these need not deter us. Such a move might well help restore the habits of thrift which seem now to be becoming a thing of the past.

"What are the possible means of investing in America once we have saved? Almost any form of investment - insurance, stocks, bonds, mutual funds, and so on - lead eventually to investment by industry in increased capacity, so that there is no great difference from the Nation's point of view, whatever form of investment we select. Mutual funds perhaps offer an attractive long-term field since in most cases the funds are invested directly in the common

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stocks of America's industrial companies. In this way, the industrial community finds it easier to float the issues of stock to finance its expansion of mechanization and automation. One such fund, of which I am the President, is the Automation Shares Mutual Fund which has as its objective investment in the companies which will supply the plant and equipment to automate American production. In this way, the necessary plants for the companies who build the equipment we need to increase our productivity per head can be built up and maintained.

"To sum up: Increased growth is now essential for our national security and future well being. To attain this demands on the part of all of us that we save our money and invest. This will enable America to automate its production lines and achieve levels of output which not only increase our standard of living but give us the means of improving our scientific development and maintaining our national defense. Each of us should resolve: 'America has invested in me; it is now my turn to invest in America'."